

## **Performance of Entrepreneurial Chinese Immigrants in Network Marketing**

### **Organisations**

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## **Performance of Entrepreneurial Chinese Immigrants in Network Marketing Organisations**

**Abstract** *Immigrant entrepreneurship has started attracting much empirical research in the literature. There is an increasing trend in Australia where a large number of Chinese immigrants have joined network marketing organisations (NMOs). However, only a small number of empirical studies on NMOs have been conducted and most of these do not examine the factors contributing to explaining the performance of Chinese immigrants in NMOs. The objective of this paper is to develop an integrative model to examine the factors contributing to the action of Chinese immigrants who engage in network marketing business.*

**Keywords:** ethnic entrepreneurship; entrepreneurial cognition; entrepreneurship; entrepreneurship theory

Recently, immigrant entrepreneurship has started attracting researchers' attention (Iyer and Shapiro, 1999; Chaganti and Greene, 2002; Zhou, 2004; Ley, 2006; Sequeira and Rasheed, 2006). Chaganti and Greene (2002) define the immigrant entrepreneurs as "Individuals who, as recent arrivals in the country, start a business as a means of economic survival" (p. 128). Researchers have explained the main reason for immigrants to pursue self-employed and finally become more established businesspeople as labour market disadvantages because of the incompetent in host country's language skills, lacking education and specific career-related skills and the depreciation of human capitals, etc. (Iyer and Shapiro, 1999; Chaganti and Greene, 2002; Zhou, 2004; Ley, 2006; Sequeira and Rasheed, 2006).

Sequeira and Rasheed (2006) point out that immigrant entrepreneurs acquire the resources from two major sources: families and social network in their ethnic enclave. For financial capital, the majority of immigrant entrepreneurs depend upon their families as well as loans from relatives and friends (Sequeira and Rasheed, 2006). Family provides convenient and low cost source of support (Iyer and, Shapiro, 1999). However, many immigrants have neither access to obtain resources nor knowledge to start business.

Between 1986 and 1996, a large number of Chinese people from the People's Republic of China (PRC) came to Australia (Gao, 2006). Like many other Chinese immigrants, these people are also disadvantaged in Australia because of exclusion from job opportunities in the general labour market and their lack of English, education and specific career-related skills, etc. (Evans, 1989; Iyer

and Shapiro, 1999; Zhou, 2004; Ley, 2006; Sequeira et al., 2006). In addition, this group of Chinese immigrants grew up in a communist country; many of them are witnesses or participants of the Great Proletarian Cultural Revolution that occurred in PRC between 1966 and 1976. Their early lives were dominantly affected by the communist ideology and social influences which may also make it more difficult to fit into the main community in the West world. Based on the literature review, the characteristics of these Chinese immigrants may be summarized as: the possession of potential capabilities in organising meetings, the lack of basic knowledge of conducting private businesses, a shortage of financial resources and little knowledge of Australian society obtained from school education (e. g. Doughty, 1978; Pikcunas, 1990; World Bank, 1993; Stevenson-Yang, 1996; Warner 1996; Wan, 2001; Chen, 2003; Brown, 2007). Therefore, large number of Chinese immigrants from the People's Republic of China ends their careers in restaurants as dishwashers with the lowest incomes (Collins, 2002).

Frey (1996) points out that people usually move to other countries for positive reasons. “They are looking for a new or better job, improved quality of life, lower cost of living, greater security, and so on” (Frey, 1996, pp. 37). Therefore, this study assumes that dishwashers with lowest incomes should not be the best choice for many Chinese immigrants; and the entrepreneurship promoted by NMOs should be appeal to these immigrants, because NMOs promote themselves as a way of for the “ordinary” person to attain wealth and status without barriers to entry as an ivy—league education, high social position, or significant inheritance (Biggart, 1989; Kuntze, 2001). Actually, the evidence in literature shows that many Chinese immigrants have been attracted to NMOs (Lin, 2007). This research attempts to apply social cognitive theory, integrated with the theory of planned behaviour and entrepreneurship literature to answer the research question:

*What are the factors explaining the actions taken by Chinese immigrants participating in network marketing businesses?*

### **Studies of Network Marketing Organisation and Aims of Current Study**

A review of the literature indicates that the substantial proportion of articles on NMO is about examining the controversy and negative perceptions that surround NMOs (Grant, 1988; Peterson et al., 1989; Kustin and Jones, 1995; Bloch, 1996; Barkacs, 1997; Johnson, 1999; Koehn, 2001; Vander Nat

and Keep, 2002; Harris, 2004). Biggart (1989) suggests that the critical factor for a network marketing firm's success is its ability to engage with energies of a large number of people and shape them into a highly productive organisation, which is called network marketing organisation (NMO). Literally, the members of NMO are independent contractor or small business owners (Biggart, 1989; Kuntze, 2001). Some NMOs encourage their members to sell product to family members and friends and/or recruit them into the MNO, which poses certain ethical difficulties (e.g. Bloch, 1996; Koehn, 2001).

The major challenges to NMO can be summarized as 1) overcoming negative perceptions, 2) retaining existing network marketers, and 3) attracting new people (Granfield and Nicols, 1975; Biggart, 1989; Bhattacharya and Mehta, 2000; Sparks and Schenk, 2001; Harris, 2004; Sparks and Schenk, 2006). The main strategies utilized by NMOs can be summarized as 1) environmental strategy: creating a positive social environment, 2) personal strategy: attracting entrepreneurial oriented people, and 3) behavioral strategy: influencing network marketer's behaviors (Bhattacharya and Mehta, 2000; Pratt, 2000; Sparks and Schenk, 2001; Sparks Schenk, 2006).

From the literature, no studies are found on explaining how individual network marketers take action to conduct their network marketing business, which leaves a gap in the literature of NMO studies. Current study intends to investigate the relationships between environmental influence, the desire for entrepreneurial opportunities in NMOs, network marketing specific self-efficacy belief, and entrepreneurial actions, develop the **model of network marketer's action**, answer to the research question, thereby to address the gap in the literature.

### **Environmental Influence and the Desire for Entrepreneurial Opportunities in NMO**

*Environmental Influence.* Network marketers' behaviours and performances are more often influenced by the NMO's social environment rather than what is instructed, because network marketers are independent contractors and have no obligations to comply with instructions from others (Biggart, 1989; Kuntze, 2001; Msweli and Sargeant, 2001; Harris, 2004), thus the NMO environment influence is important. In current study defines NMO **environmental influence** as the influence of training/events (activities) organised by NMOs and other individuals' role models. In order to overcome the obstacle of negative perceptions, NMOs endeavour to create a positive social environment (Biggart, 1989; Sparks and Schenk, 2006). In this environment, network marketers feel

connected to each other, supportive of each other, and influence in each other (Biggart, 1989; Sparks and Shenk, 2001; Sparks and Shenk, 2006).

The environmental influence on the decision to pursue entrepreneurial opportunities has been discussed and investigated by numerous authors (e.g. Kassicieh, Radosevich and Umbarger, 1996; O’Grady, 2002; Korunka, Frank, Lueger and Mugler, 2003; Minniti, 2005; Elbanna and Child, 2007; Taormina and Lao, 2007). The result of these studies exhibits a broad range of opinions about meaning of the term environment. According to Gartner (1985), environment is one of four dimensions need to be considered in creating a new business. From six perspectives (resources, funding, knowledge, dynamics, examples and endorsement), O’Grady (2002) examine the influence of environmental factors over entrepreneurial behaviours of academic researchers. Korunka et al. (2003) use the “configurational” approach to study the impact of the external environment. They describe that the environment of business setup processes include microsocial (e.g. family restrictions, support) and macrosocial (e.g. social networks based on earlier occupational experiences) aspects. Strong environmental influences could result in a push condition (Korunka et al., 2003), that attracts individuals to pursuing entrepreneurial careers.

Each network marketer is an independent network marketing business owner (Biggart, 1989; Sparks and Schenk, 2001). According to Korunka et al. (2003), their behaviours are also affected by both microsocial and macrosocial environment. Their microsocial environment is composed of their family members; their macrosocial environment is mainly composed of network marketers (Pratt, 2000).

***The Desire for Entrepreneurial Opportunity in NMOs.*** The entrepreneurship has been heavily promoted by NMO to attract people (Biggart, 1989; Kuntze, 2001). One important trait of the entrepreneur is the desire for profitable opportunities (Shane and Venkataraman, 2000; McMullen and Shepherd, 2006). Current study thus infers that the desire for opportunities from network marketing businesses is one of the traits of the network marketing entrepreneurs. In current study, the **desire for entrepreneurial opportunity in NMOs** is defined as the extent to which a network marketer wants to discover opportunities and make profits from the network marketing business.

Discovery of an entrepreneurial opportunity is the pre-condition for an entrepreneurship (Shane and Venkataraman, 2000; Echhardt and Shane, 2003; McMullen and Shepherd, 2006). The characteristics of opportunities influence the willingness of people to exploit these opportunities (Shane and Venkataraman, 2000; Echhardt and Shane, 2003). The exploitation of an entrepreneurial opportunity requires the entrepreneur to believe that the expected value of the entrepreneurial profit will be large enough to compensate for the opportunity cost of other alternatives (Shane and Venkataraman, 2000). Therefore, the individual's cognition of entrepreneurial opportunities in network marketing businesses will stimulate his/her desires of exploring the opportunities in this area.

*Effects of Environmental Influence on the Desire for Entrepreneurial Opportunity.* Social cognitive theory asserts that environment conditions may emerge as the overriding determinants of behaviours, as they exercise powerful constraints on behaviours (Bandura, 1986), but “the environment is not simply a fixed property that inevitably impinges upon individuals. For the most part, the environment is inoperative until it is actualized by appropriate action” (Bandura, 1986, p. 28). Therefore, the network marketing organisational environment does not influence network marketers unless they frequently participate in meetings, events, and training organized by NMOs.

Since social cognitive theory also postulates that a person's environment influences the person and, similarly, a person influences their own environment, and that personal and environmental influences are interdependent (Bandura, 1986). It can be inferred that the environment filled with the spirit of entrepreneurialism created by NMOs will stimulate people's desire for pursuing entrepreneurial opportunities in network marketing businesses. Current study assumes that the frequency of meeting with other successful network marketers and participating in events and training organized by NMOs is positively related to environmental influences, which, in turn, is positively related to the level of desire for exploring entrepreneurial opportunities in network marketing businesses. Thus, the propositions are proposed as follows:

*Proposition 1: the environmental influence is positively related to Chinese immigrant network marketers' desire for entrepreneurial opportunities in network business.*

### **Environmental Influence and Network Marketing Specific Self-Efficacy Belief**

***Network Marketing Specific Self-Efficacy Belief.*** A review of the literature shows that the concept of self-efficacy is not only one of the determinants in the theory of planned behaviour (Ajzen, 1991), but also occupies a pivotal role in the causal structure of social cognitive theory (Bandura, 2001). According to Bandura (1986, 1991), self-efficacy belief is defined as people's judgement of their capabilities to organise and execute course of action required to attain designed type of performance. Current study defines network marketing-specific self-efficacy belief as a network marketer's belief in his/her ability to achieve success in pursuing entrepreneurial opportunities from network marketing businesses. Although the success of the network marketing approach has been proved in the last several decades (Kuntze, 2001), the high rate of individual network marketer turnover is one of the salient phenomena in NMOs (Harris, 2004). Based on the rationality of social cognitive theory, current study assumes that network marketers' high turnover rate implies that a large number of network marketers lose the belief in their ability to secure a desired outcome and prevent the undesired ones (Bandura, 1997) in pursuing entrepreneurial opportunities from network marketing businesses.

Social cognitive theory asserts that the "exercise of control that secures desired outcomes and wards off undesired ones has immense functional value and provides a strong source of incentive motivation" (Bandura, 1997, p. 2). The belief in personal efficacy is the central mechanism of personal agency in making causal contributions to their own psychological functioning (Bandura, 1997; Bandura, 2001). According to social cognitive theory, people's beliefs in their efficacy influence the course of action people choose to pursue, how much effort they put forth in given endeavours, and how long they will persevere in the face of obstacles and failures (Bandura, 1986; Bandura, 1997; Bandura, 2001). People often do not behave optimally even though they know full well what to do, "because self-referent thought medicates the relationship between knowledge and action" (Bandura, 1986, p. 390). Therefore, raising network marketers' self-efficacy is critical for an NMO to retain their sales force.

***Effects of Training on Network Marketing Specific Self-Efficacy Belief.*** Based on the literature of NMO studies (e.g. Biggart, 1989; Bhattacharya and Mehta, 2000) and social cognitive theory, this study assumes that the business environment created by NMOs is one of the important

sources of information for network marketers to obtain self-knowledge about their efficacy. According to Biggart (1989), a popular activity organised by the network marketing organisation is training (Biggart, 1989). Training should be expected as an essential method for an NMO to achieve its success, as it helps network marketers to obtain business skills and knowledge, and increase their self-efficacy (Gist, 1989; Eden and Aviram, 1993; Schwoerer, May, Hollensbe, and Mencl, 2005; Zhao et al., 2005; Tai, 2006).

Researchers (Malone, 2001; Choi, Price and Vinokur, 2003) claim that many training programs and efforts are aimed at changing employees' efficacy beliefs. The underlying rationale of such claims is Bandura's (1986) notion that enactive mastery, defined as repeated performance accomplishments, is an important pre-condition for the development of self-efficacy (Axtell and Parker, 2003; Bandura, 1986). Self-efficacy is malleable (Eden and Aviram, 1993). Schwoerer et al. (2005) found that training experiences designed to equip participants to cope independently with a challenging work situation had a positive influence on specific efficacy beliefs. Tai's (2006) findings suggest that trainees' familiarity with the training contents is positively related to their self-efficacy and training motivation.

***The Effects of Observing Others' Performances on Network Marketing Specific Self-Efficacy Belief.*** "Efficacy appraisals are partly influenced by vicarious experiences mediated through modeled attainments" (Bandura, 1997, p. 86). For many activities, there are no absolute measures of adequacy; therefore, people must appraise their capabilities in relation to the attainments of others (Bandura, 1997). When the capabilities are gauged largely in relation to the performance of others, social comparison operates as a primary factor in the self-appraisal of capabilities (Bandura, 1997). When people see or visualize others similar to oneself performance successfully, this typically raises efficacy beliefs in observers that they themselves possess the capabilities to master comparable activities; they persuade themselves that if others can do it, they too have the capabilities to raise their performance (Bandura, 1997). Therefore, the social environment composed of a large number of successful network marketers (Biggart 1989) should positively affect network marketers' self-efficacy in pursuing the entrepreneurial opportunities in network marketing businesses. Current study assumes that the frequency of participating in events and activities organised by NMOs is positively related to



the environmental influence, which in turn, is positively related to network marketing specific self-efficacy beliefs. Thus, current study proposes the proposition as follow.

*Proposition 3: The environmental influence is positively related to the level of self-efficacy belief in achieving success in network marketing businesses Chinese immigrant network marketers will develop.*

### **Network Marketing Specific Self-Efficacy Belief and Entrepreneurial Action**

In current study, the **entrepreneurial action** is defined as the act of a network marketer pursuing profits through selling products, recruiting new network marketers and supporting/training them to do the same thing. According to social cognitive theory, self-efficacy refers to individuals' conscious belief in their own ability to bring about desired result in the performance of a particular task (Bandura, 1986; Bandura, 1997). Bandura (1997) claims that "people's level of motivation, affective states, and action are based more on what they believe than on what is objectively true" (pp. 2). People's beliefs in their efficacy influence the course of action people choose to pursue, how much effort they put forth in given endeavours, and how long they will persevere in the face of obstacles and failures (Bandura, 2001). "Unless people believe they can produce desired effects by their actions, they have little incentive to act" (Bandura, 1997, pp.2-3). Self-efficacy is an important determinant of human behaviour (Forbes, 2005). Individuals tend to avoid tasks about which they have low self-efficacy and, conversely, are drawn to toward tasks about which they have high self-efficacy (Bandura, 1986; Forbes, 2005). Self-efficacy is a significant determinant of performance that operates partially independently of underlying skills (Bandura, 1986; Bandura, 1991). Therefore, current study argues that network marketing specific self-efficacy is positively related to the entrepreneurial actions undertaken by network marketers. Based on this argument, the proposition is proposed as follow.

*Proposition 4: There is a positive relationship between the attainment of network marketing specific self-efficacy belief and entrepreneurial actions among successful Chinese immigrant entrepreneurial network marketers.*

### **The Desire for Entrepreneurial Opportunity and Entrepreneurial Action**

Attitudes towards the behaviour and subjective norm are important predictors of behavioural intention (Ajzen, 1991). Attitude is viewed as the first determinant of behavioural intentions (Ajzen,

1991; Carr and Sequeria, 2007). In general, the more positive the attitude towards a behaviour, the stronger the intention the individuals have to perform that behaviour (Armitage and Conner, 2001; Carr and Sequeria, 2007). Ajzen (2001) claims that “most studies concerned with the prediction of behaviour from attitudinal variables were conducted in the framework of the theory of planned behaviour (Ajzen, 1991)...” (p. 43).

Armitage and Conner (2001) suggest that attitude is one of the best predictors of desires. When they were applying the theory of planned behaviour to the area of entrepreneurship, researchers translated attitude into desirability to develop entrepreneurial intention models (Krueger, 1993; Krueger and Brazeal, 1994; Krueger et al., 2000; Armitage and Conner, 2001; Peterman and Kennedy, 2003). Krueger and Brazeal (1994) claim that the “constructs of perceived desirability subsume the two attractiveness components of theory planned behaviour, ‘attitude toward the act’ and social norms” (p. 96).

Shapero’s model of entrepreneurial intentions suggests that the decision to initiate a new venture requires credibility (Krueger, 1993). In turn, credibility requires at least a threshold level of perceptions of feasibility and desirability plus some propensity to act upon the opportunity (Krueger, 1993). Perceived desirability partly drives entrepreneurial activity (Shapero, 1975; Krueger, 1993) and affects intentions (Krueger, 1993). In his study, Krueger (1993) tested the Shapero model of entrepreneurial intention and found the perception of desirability is one of the sources for entrepreneurial intentions.

Peterman and Kennedy (2003) suggest that dominant models of entrepreneurial intentions are largely homologous in that they all focus on the pre-entrepreneurial event and integrate attitude and behaviour theory (Ajzen, 1991) and self-efficacy and social cognitive theory (Bandura, 1986; 1997). Dimov (2007) suggests that individual intention and action involve a configuration of self-efficacy beliefs and desires.

According to the theory of planned behaviour advocated by Ajzen (1991), entrepreneurial actions in the network marketing business could be predicted by the network marketer’s entrepreneurial intention of conducting network marketing business. A few articles related to the study of the relationship between intentions and actions are found in the literature (Ajzen, 2001;

Hooft, Born, Taris, Flir and Blonk, 2005; Westaby, 2005). The positive relationship between intention and behaviour (action) has been supported by empirical studies (e.g. Hooft et al., 2005; Westaby, 2005). In their study, Hooft et al. (2005) found that the intention to search for a job was significantly predictive of job search behaviours, while Westaby's (2005) study demonstrates the intention predicts the behaviour. In entrepreneurship literature, many studies also support the positive relationship between entrepreneurial intention and entrepreneurial action (e.g. Bird and Jelinek, 1988; Krueger, 1993; Jung, Ehrlich and Noble, 2001; Choo and Wong, 2006). Choo and Wong (2006) point out that entrepreneurial intention is the single best predictor of entrepreneurial behaviours. Individuals with intentions to start a business can be identified and studied as they progress through the entrepreneurial process much more readily than people without an initial intention. Jung, Ehrlich and Noble's (2001) study also demonstrates the positively relationship between entrepreneurial intention and entrepreneurial action. Thus, current study proposes the proposition as follows.

*Proposition 5: The stronger the desire for entrepreneurial opportunity in NMOs network marketers have, the more entrepreneurial actions they will take.*

According to the propositions in current study, model of network marketer's performance is proposed (Figure A).

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## **Discussions**

This proposed research project will be significant both theoretically and practically. From a theoretical perspective, this research will be the first study that integrates social cognitive theory with the theory of planned behaviour and literature on entrepreneurship to the study of NMOs. It will demonstrate the relationship between factors of environmental influence, needs for achievement, desires for opportunity from network marketing business, network marketing specific self-efficacy, entrepreneurial intention and entrepreneurial action. This study anticipates that a network marketer's

desire for opportunities and network marketing specific self-efficacy will determine his/her intention to conduct network marketing business, and this intention will predict his/her actions, which in turn lead to the financial performance. This study also anticipates that the NMO environmental influence will be positively related to network marketer's desire for opportunities and network marketing specific self-efficacy. The results of exploring the relationship between these factors will allow development of a theoretical template for future studies on NMOs.

The sample of this study will focus on Australian Chinese immigrants, who lack the required resources to start up their own small business. This study will examine the relationship between Chinese immigrant's needs for achievement and their desires for entrepreneurial opportunities, which will make theoretical contributions to the study on immigrant entrepreneurship.

With respect to the practical significance of this study, network marketing firms can gain potential benefits in knowing the results of this study. It may help managers of firms to understand how ordinary individuals become a successful network marketer. Based on such understanding, managers of network marketing organisations will be able to develop more effective business strategies in terms of engaging with thousands of potential network marketers and shaping them into greatly productive organisations.

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**Figure 1. Model of network marketer's action**

